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Message Text

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INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

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TAGS: ECON, EFIN, ECIN, EALR, GR
SUBJECT: GREEK ECONOMY: MODERATE UPWARD TREND CONTINUES BUT
WEAK SPOTS REMAIN

REF: (A) ATHENS 6133, (B) ATHENS A-139, (C) ECBRUSSELS 7518
(D) CERP D

SUMMARY: ALTHOUGH DOMESTIC DEMAND IN GREECE REMAINS HESISTANT, PRODUCTIVE ACTIVITY IS CONTINUING ITS MODERATE UPWARD TREAD, STIMULATED MAINLY BY GROWING EXPORT DEMAND FROM EUROPEAN AND OPEC COUNTRIES AND SOME RESTOCKING OF CONSUMER GOODS INVENTORIES. THERE ARE SIGNS THAT LAGGING INVESTMENT ACTIVITY MAY PICK UP TOWARDS THE END OF THE YEAR, BUT NO CONCRETE EVIDENCE AS YET. BECAUSE INFLATIONARY PRESSURES ARE STILL CONSIDERED TOO STRONG, THE GOVERNMENT FACES CONFLICTING POLICY OBJECTIVES OF STIMULATING DEMAND YET MODERATING PRICE INCREASES. IT NOW SEEMS LIKELY THAT THE
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ANNUAL INFLATION RATE WILL BE 12-14 PERCENT. THE LATEST

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BALANCE OF PAYMENTS FIGURES SHOW A REDUCTION IN THE TRADE DEFICIT, DUE TO A DECREASE IN PUBLIC SECTOR IMPORTS AND A SLIGHT INCREASE IN EXPORTS. A 22 PERCENT RISE IN TOURIST RECEIPTS HAS HELPED TO DECREASE THE CURRENT ACCOUNT DEFICIT IN THE FIRST HALF OF THE YEAR, BUT IT WILL PROBABLY STILL REACH A NEAR-RECOND $1.2 BILLION FOR THE YEAR. NEVERTHELESS, HIGHER PRIVATE CAPITAL INFLOWS, LARGELY FROM EMIGRANTS AND THE SHIPPING SECTOR, SHOULD REDUCE THE NEED FOR OFFICIAL BORROWING THIS YEAR. THE BANK OF GREECE IS NOT ENTIRELY HAPPY WITH DEVELOPMENTS IN THE MONETARY SECTOR, IN PARTICULAR THE LARGE INCREASE IN CURRENCY CIRCULATION DURING JULY (PROBABLY A RESPONSE TO THE DETERIORATION IN GREEK-TURKISH RELATIONS), THE OVERLY RAPID EXPANSION OF BANK CREDIT TO TRADE, AND THE SLUGGISH GROWTH OF CREDITS FOR PRODUCTIVE INVESTMENT. ON THE INTERNATIONAL SCENE, OFFICIAL NEGOTIATIONS FOR GREECE'S ACCESSION TO THE EC WERE FORMALLY OPENED JULY 27, AND DETAILED DISCUSSIONS WILL RESUME IN THE FALL. END SUMMARY.

1. AGGREGATE DEMAND: PRIVATE CONSUMER DEMAND, AS INDICATED BY RETAIL SALES, REMAINS HESITANT AFTER SOME SIGNS OF RECOVERY EARLIER THIS YEAR. FOR THE FIRST FIVE MONTHS OF 1976 VIS-A-VIS THE SAME PERIOD IN 1975, THE AVERAGE INCREASE WAS 14.4 PERCENT, BUT SINCE THE CONSUMER PRICE INDEX (CPI) ALSO ROSE 14.1 PERCENT THERE WAS PRACTICALLY NO CHANGE IN RETAIL SALES VOLUME. INVESTMENT DEMAND, BOTH FOREIGN (SEE REF B) AND PRIVATE, IS STILL WEAK WITH THE EXCEPTION OF SOME REBUILDING OF INVENTORIES AND LIVELY ACTIVITY IN THE CONSTRUCTION SECTOR. NEVERTHELESS, THERE ARE SIGNS THAT INVESTIMENT MAY PICK UP IN THE LATTER HALF OF THE YEAR. FOR EXAMPLE, PERMITS ISSUED FOR IMPORTS OF INDUSTRIAL MACHINERY (EXCLUDING AGRICULTURAL AND TRANSPORT EQUIPMENT) HAVE INCREASED CONSIDERABLY IN THE LAST MONTH OR TWO. A FOUR TO FIVE MONTH LAG USUALLY FOLLOWS THE ISSUANCE OF PERMITS BEFORE ACTUAL IMPORTS ARE REALIZED, WHICH SUGGESTS THAT BOTH IMPORTS AND INVESTMENT MAY RISE TOWARDS THE FOURTH QUARTER. ANOTHER FAVORABLE SIGN IS THAT, ACCORDING TO A SURVEY BY THE FEDERATION OF GREEK INDUSTRIES, LOCAL BUSINESSMEN APPEAR TO BE PLANNING LARGER INVESTMENT OUT-LAYS IN THE NEXT SIX MONTHS. THIS MAY BE IN RESPONSE TO LIMITED OFFICIAL USE

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GROWING EXPORT DEMAND, AS WESTERN ECONOMIES RECOVER, AND EXPECTATIONS OF LARGER PUBLIC SECTOR PROJECTS.

2. AGGREGATE SUPPLY: IN CONTRACT TO DOMESTIC DEMAND, ECONOMIC ACTIVITY ON THE SUPPLY SIDE CONTINUES ON AN UP-WARD TREND, ALTHOUGH THERE ARE STILL A FEW WEAK SPOTS. THE AVERAGE MONTHLY RATE OF INCREASE IN THE INDEX OF MANUFACTURING PRODUCTION FROM JANUARY-MAY 1976, WAS A

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HEALTHY 1.3 PERCENT, COMPARED WITH AN AVERAGE (DECREASE) OF MINUS 0.1 PERCENT IN THE SAME PERIOD OF 1975. THIS UPWARD SURGE IN THE INDEX REFLECTS THE FACT THAT THE SECTORS WITH THE LARGEST INCREASES - TEXTILES, TOBACCO, FOODSTUFFS AND NON-METALLIC MINERALS - ALL HAVE FAIRLY LARGE WEIGHTS IN THE GENERA INDEX. RISING EXPORT DEMAND, PARTICULARLY FOR TEXTILES AND CEMENT, SEEMS TO BE AN IMPORTANT FACTOR. CEMENT PRODUCTION, IN FACT, IS BOOMING BECAUSE OF DOMESTIC CONSTRUCTION ACTIVITY AND STRONG DEMAND IN OPEC COUNTRIES.

3. OVERALL, THE MANUFACTURING INDEX FROM JANUARY-MAY 1976 VIS-A-VIS THE SAME PERIOD OF 1975 INCREASED 6.6 PERCENT. CONSUMER GOODS WERE STILL LEADING, WITH AN EIGHT PERCENT INCREASE, BUT CAPITAL GOODS PRODUCTION ALSO SHOWED SOME SIGNS OF REACTIVATION AND CONSUMER DURABLES PRODUCTION REVERSED LAST YEAR'S SHARP DOWNWARD TREND, IN-CREASING BY TWO PERCENT. ALTHOUGH WE HAVE NO CURRENT INDICATORS OF CAPACITY UTILIZATION, THE REVIVAL OF CAPITAL GOODS PRODUCTION MAY MEAN THAT LAST YEAR'S EXCESS CAPACITY IS GRADUALLY BEING ELIMINATED, AT LEAST IN SOME AREAS.

4. AGRICULTURAL AND LIVESTOCK PRODUCTION HAS BEEN GENERALLY GOOD THIS YEAR, PARTICULARLY TOBACCO, OLIVE OIL, WHEAT, BARLEY, SUGAR AND FRESH AND DRIED FRUITS. PEACH EXPORTS THIS YEAR WILL BE LOWER THAN LAST YEAR'S RECORD (ABOUT $70 MILLION) BECAUSE OF THE PRO-HIBITIVE DUTY LEVIED BY THE EC FROM MID-JULY THROUGH MID-AUGUST. TOBACCO EXPORTS ARE ALSO EXPECTED TO FALL SHORT OF THE UNUSUALLY HIGH 1974 AND 1975 LEVELS ($160 MILLION).

5. BALANCE OF PAYMENT: (SEE ALSO REF B) PREMIMINARY
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BALANCE OF PAYMENTS FIGURES FOR THE FIRST HALF OF THE YEAR SHOW A SLIGHT RISE IN EXPORTS (TWO PERCENT), MAINLY FROM INCREASING ECONOMIC ACTIVITY IN WESTERN EUROPE AND OPEC COUNTRIES, AND A SMALL DECREASE IN IMPORTS, DUE ENTIRELY TO LOWER PUBLIC DEMAND. AS A RSULT, THERE WAS A FIVE PERCENT DECREASE IN THE TRADE DEFICIT. INVISIBLES RECEIPTS ARE HIGHER THAN LAST YEAR BECAUSE TOURISM INFLOWS ROSE 22 PERCENT, REACHING $273 MILLION. ALTHOUGH THIS IS A SUBSTANTIAL AMOUNT, IT IS LESS THAN EXPECTED SINCE ARRIVALS WERE UP BY 50 PERCENT IN THE SAME PERIOD. IT NOW APPEARS THAT THE OPTIMISTIC PREDICTIONS OF $900 MILLION IN TOURIST EARNINGS FOR THE YEAR WILL NOT BE ATTAINED. THE CURRENT ACCOUNT DEFICIT, AT $714 MILLION, WAS 15 PERCENT LOWER THAN LAST YEAR. NEVERTHELESS, THE BANK OF GREECE IS STILL PRE-DICTING A $1.2 BILLION DEFICIT FOR 1976 ON THE GROUNDS THAT

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IMPORTS, PARTICULARLY BY THE PUBLIC SECTOR, WILL INCREASE
TOWARDS THE END OF THE YEAR.

6. ON THE CAPITAL ACCOUNT, FOREIGN EXCHANGE DEPOSITS FROM
EMIGRANTS AND THE SHIPPING SECTOR AND INFLOWS FOR REAL
PROPERTY PURCHASES INCREASED SUBSTANTIALLY, WHEREAS PRIVATE
INVESTMENT UNDER PL 2687 AND SUPPLIERS' CREDITS ARE
LOWER THAN IN THE SAME PERIOD OF 1975. BANK OF GREECE AND
STATE LOANS SHOW QUITE A DROP FOR THE FIRST HALF OF THE
YEAR, REFLECTING THE GOVERNMENT'S "WAIT AND SEE" ATTITUDE
TOWARDS CONTACTING NEW LOANS. THE NEED FOR GROSS
OFFICIAL BORROWING IS EXPECTED TO BE LOWER THIS YEAR, IN
THE RANGE OF $300-500 MILLION. SOURCES OF CREDIT ALREADY
AVAILABLE TO THE GOVERNMENT SHOULD BE MORE THAN SUFFICIENT
TO COVER THIS GAP. AS OF JULY 31 GORSS OFFICIAL RESERVES,
INCLUDING SDRS, TOTALLED $880 M ADP200
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CIEP-01 LAB-04 SIL-01 OMB-01 STR-04 AGR-05 FEAE-00

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FM AMEMBASSY ATHENS
TO SECSTATE WASHDC 6462
INFO USOEC PARIS
USEC BRUSSELS 1781
ZEN AMCONSUL THESSALONIKI 2196

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7. PRICES: PRICES ARE STILL RISING FASTER THAN ORIGINALLY
PREDICTED, BUT THE RATE OF INCREASE SEEMS TO BE SLOWING. THE
CPI IN JULY 1976 STOOD AT 14.4 PERCENT OVER THE JULY 1975
LEVEL, BUT DRUING THE FIRST SEVEN MONTHS OF 1976 THE INCREASE
WAS ONLY 4.8 PERCENT,COMPARED WITH SIX PERCENT A YEAR AGO.
ON THE OTHER HAND, THE WHOLESALE PRICE INDEX WHICH
INCREASED ONLY TEN PERCENT FOR ALL OF 1975 HAS ALREADY
RISEN 8.5 PERCENT DURING THE FIRST HALF OF 1976, IT JUMPED
SHARPLY AT THE BEGINNING OF THE YEAR BECAUSE OF INCREASED
AGRICULTURAL AND LIVESTOCK PRICES AND HIGHER IMPORT
PRICES FROM THE DRACHMA DEVALUATION. THUS, DESPITE GOOD

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HARVEST, HIGHER FOOD PRICES SEEM TO BE A MJAOR FACTOR
THIS YEAR, SO MUCH SO THAT THERE IS TALK OF GOVERNMENT
INVESTIGATION OF MEDDLEMEN PROFITS. KEPE (THE GOVERNMENT
ECONOMIC RESEARCH CENTER), AND BANK OF GREECE OFFICIALS
HAVE TOLD US THAT THE ESTIMATED INFLATION RATE (GDP
DEFLATOR) FOR 1976 HAS BEEN UNOFFICIALLY REVISED UPWARDS,
FROM 10-12 PERCENT TO 12-14 PERCENT, ALTHOUGH KEPE IS
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STILL HOPEFUL THAT THE LOWER FIGURE CAN BE ATTAINED.

8. MONETARY AND CREDIT DEVELOPMENTS: ACCORDING TO THE
BANK OF GREECE, MONETARY DEVELOPMENTS DURING THE FIRST
HALF OF THE YEAR HAVE NOT BEEN ENTIRELY SATISFACTORY.
CURRENCY IN CIRCULATION HAS RISEN TOO QUICKLY, WHILE
PRIVATE DEPOSITS WITH COMMERCIAL BANKS AND SPECIAL
FINANCIAL INSTITUTIONS HAVE NOT GROWN AT THE HOPED-FOR
RATE. THE BANK OF GREECE IS CONCERNED THAT THE INCREASED
DEMAND FOR CASH, WHICH IS CERTAINLY RELATED TO TENSIONS
SURROUNDING THE DISPUTE IN THE AEGEAN, MAY REVIVE INFLATIONARY
PRESSURES. HOWEVER, SO FAR CONSUMERS APPEAR TO BE
HOARDING RATHER THAN SPENDING.

9. THE OVERALL EXPANSION OF BANK CREDIT TO THE PRIVATE
SECTOR, WHICH WAS 7.4 PERCENT, FROM JANUARY-MAY, IS
SATISFACTORY, BUT THE BANK OF GREECE IS NOT ENTIRELY HAPPY
WITH THE DIRECTION IT IS TAKING. THE GOVERNMENT IS TRYIN TO
STIMULATE PRODUCTIVE INVESTMENT BY EXPANDING CREDITS TO
THE MANUFACTURING AND AGRICULTURAL SECTORS, AND TO CONTROL
THE LIQUIDITY OF THE ECONOMY BY RESTRICTING TRADE CREDIT.
HOWEVER, DURING THE FIRST FIVE MONTHS OF THIS YEAR, CREDITS
TO MANUFACTURING INCREASE BY FIVE PERCENT, TO AGRICULTURE
BY 12 PERCENT, AND TO TRADE BY 16 PERCENT. AS A SHORT-TERM
STABILIZATION POLICY, THE GOVERNMENT IS ENCOURAGING THE
INCREASE IN CONSTRUCTION ACTIVITY AND, ACCORDINGLY, ALLOWED
HOUSING CREDITS, FOR WHICH THERE IS USUALLY EXCESS
DEMAND, TO INCREASE BY SIX PERCENT. NEVERTHELESS, LONGER-
TERM DEVELOPMENT POLICY DICTATES THAT INVESTMENT SHOULD
EVENTUALLY BE REDIRECTED AWAY FROM THE CONSTRUCTION SECTOR,
WHICH HAS AN UNUSUALLY HIGH SHARE IN TOTAL CAPITAL
FORMATION, TOWARDS MORE PRODUCTIVE SECTORS.

10. RELATIONS WITH THE E.C.: FORMAL NEGOTIATIONS BETWEEN
GREECE AND THE E.C. ON GREEK ACCESSION TO THE COMMUNITY
WERE OPENED IN BRUSSELS ON JULY 27 (REF C). PRIOR TO
THESE NEGOTIATIONS, THE EC-GREEK COUNCIL OF ASSOCIATION MET
AND AGREED THAT THE SECOND FINANCIAL PROTOCOL FOR GREECE
WOULD AMOUNT TO 280 MILLION UNITS OF ACCOUNT, 225 MILLION
EUROPEAN INVESTMENT BANK AND $55 MILLION FROM BUDGET RESOURCES.
FUTHER DETAILS OF THIS PROTOCOL WILL BE DISCUSSED ALONG WITH
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OTHER NUTS AND BOLTS ISSUES WHEN NEGOTIATIONS RESUME IN THE
FALL.
KUBISCH

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